Annual Report **2003**

PASSION

HIGHLIGHTS OF THE YEAR

APRIL 2002: Van Houtte acquires two coffee services: Snackon Food Services Ltd. in Montreal, and Dallas-based Eve's Seeds Inc., a former Filterfresh franchisee.

SEPTEMBER 2002: Van Houtte and CARE Canada launch Honduras San Luis coffee, a "socially responsible" coffee that Van Houtte sources from a Honduran cooperative. Thanks to this initiative, local farmers receive a better price for their green coffee, can reduce their financing charges, build infrastructures and acquire new equipment. Moreover, Van Houtte will donate a portion of San Luis coffee sales to CARE Canada which are returned to the cooperative.

OCTOBER 2002: Van Houtte subsidiary VKI Technologies produces its first Keurig® B2003 coffee machines as part of an agreement making VKI the exclusive supplier of this model for the North American market. By March 2003, VKI had produced more than 4,000 units, none of which were returned by the customers.

OCTOBER 2002: Van Houtte launches its virtual boutique, where consumers can buy the Company's gourmet, international and aromatic coffees, along with high-end coffeemakers and accessories.

APRIL 2003: Van Houtte announces the acquisition of five coffee services in the U.S.: three Filterfresh franchises in Los Angeles, Orange County and St. Louis, C&P Coffee in Columbus, Ohio, and Ocean State Coffee in Johnston, Rhode Island.

APRIL 2003: Van Houtte announces that it will shortly offer Bigelow teas in K-Cups® for use with the patented Keurig Premium Coffee Systems™.

MAY 2003: Van Houtte unveils the revolutionary Espresso Café™ coffeemaker that serves up a cappuccino, latté, espresso or americano in less than a minute with amazing ease. The new machine will target the workplace and the hotel, restaurant and institutional (HRI) sector.

JULY 2003: Van Houtte becomes the first North American gourmet coffee roaster to offer organic Fair Trade-certified coffees in single-serve K-Cups®.

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“ Everywhere in North America, Van Houtte’s 1,750 employees are all driven by a passion for coffee and the desire to make each of the 1.2 billion cups we sell always a pleasure to drink. ”

— Jean-Yves Monette

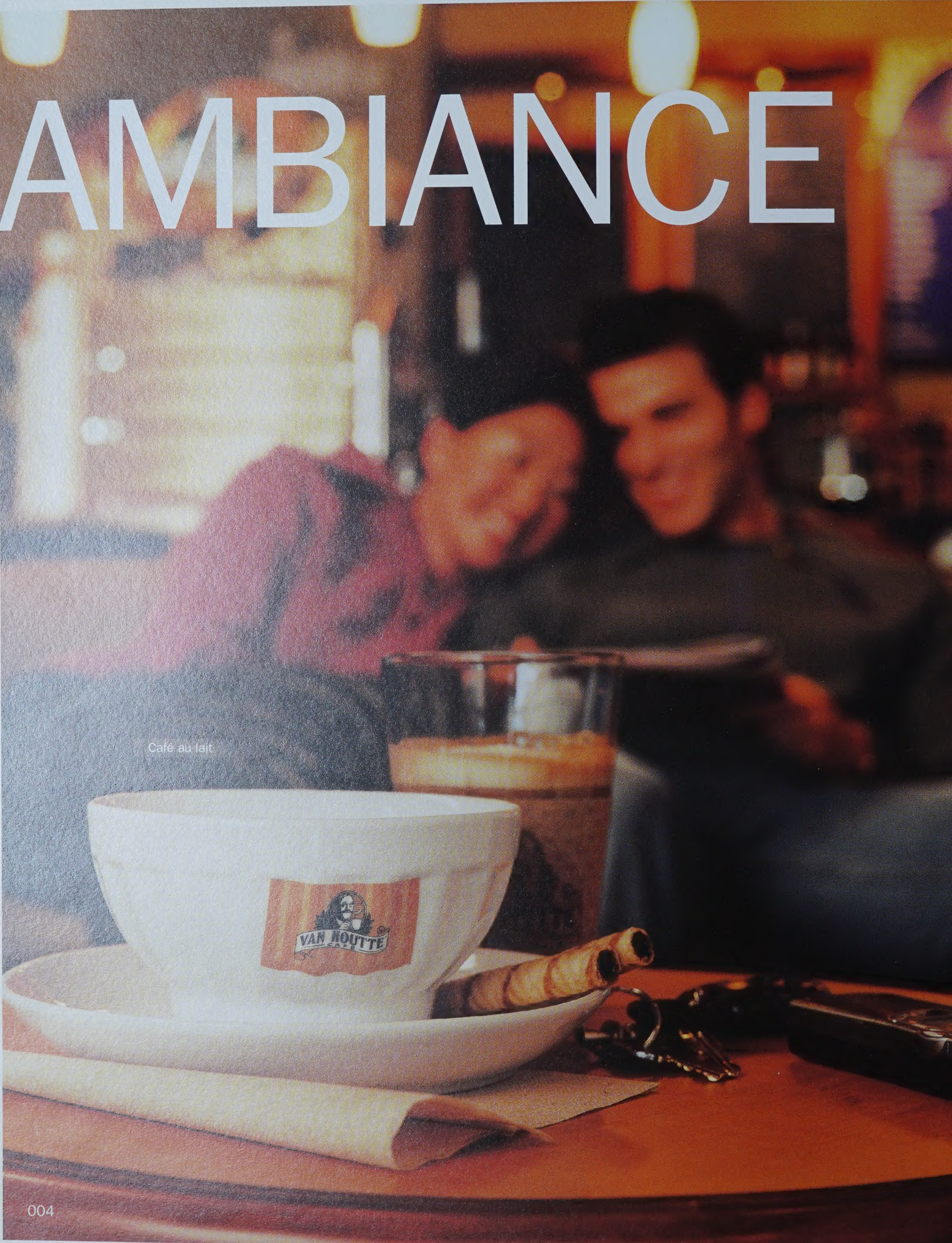
SOLUTIONS


House Blend – Medium Roast
HOUTTE
CAFÉ
caution: contents hot
A taste of
EUROPE
in your cup

at work.

Van Houtte operates the largest coffee services network in North America. Its **93 branches** serve **two million people** in **52,250 workplaces** every day. Thanks to its uniquely wide range of gourmet coffees and coffeemakers, Van Houtte can offer customized solutions to its customers' needs.

AMBIANCE



Café au lait

relaxation.

For more than **25 years**, Quebecers have had the opportunity to go to any one of Van Houtte's **63 café-bistros**, sit back and enjoy a cup of coffee and a light meal in a relaxing, casual environment.

HOSPITALITY

service made easy.

Thanks to the recently introduced, easy-to-use **Espresso Café™**, hotels, restaurants and institutions can now offer their clientele Van Houtte gourmet coffees in the form of consistently high-quality **cappuccinos**, **caffè lattes** or **espressos**.

VARIETY

Kenya Kilimandjaro – Dark Roast

for every taste.

If people drank a different coffee every morning, it would take them **90 days** to try all of Van Houtte's flavours. Van Houtte coffees are found in **3,000 points of sale** throughout Canada, **1,350 points of sale** in the Eastern U.S., and on the company's **website**.

Message from the Chairman OF THE BOARD

When I stepped down from the daily management of Van Houtte a little more than a year ago, I knew then that I would remain closely associated with this Company's [illegible] not only as its chairman of the board but as a [illegible] shareholder.

[illegible] Houtte's ownership structure is characterized by the [illegible]ence of a few founding individuals who are still major [illegible] holders, and although they are no longer a part of the [illegible]agement team, they remain actively involved in your [illegible] strategic orientation by serving on its Board [illegible]

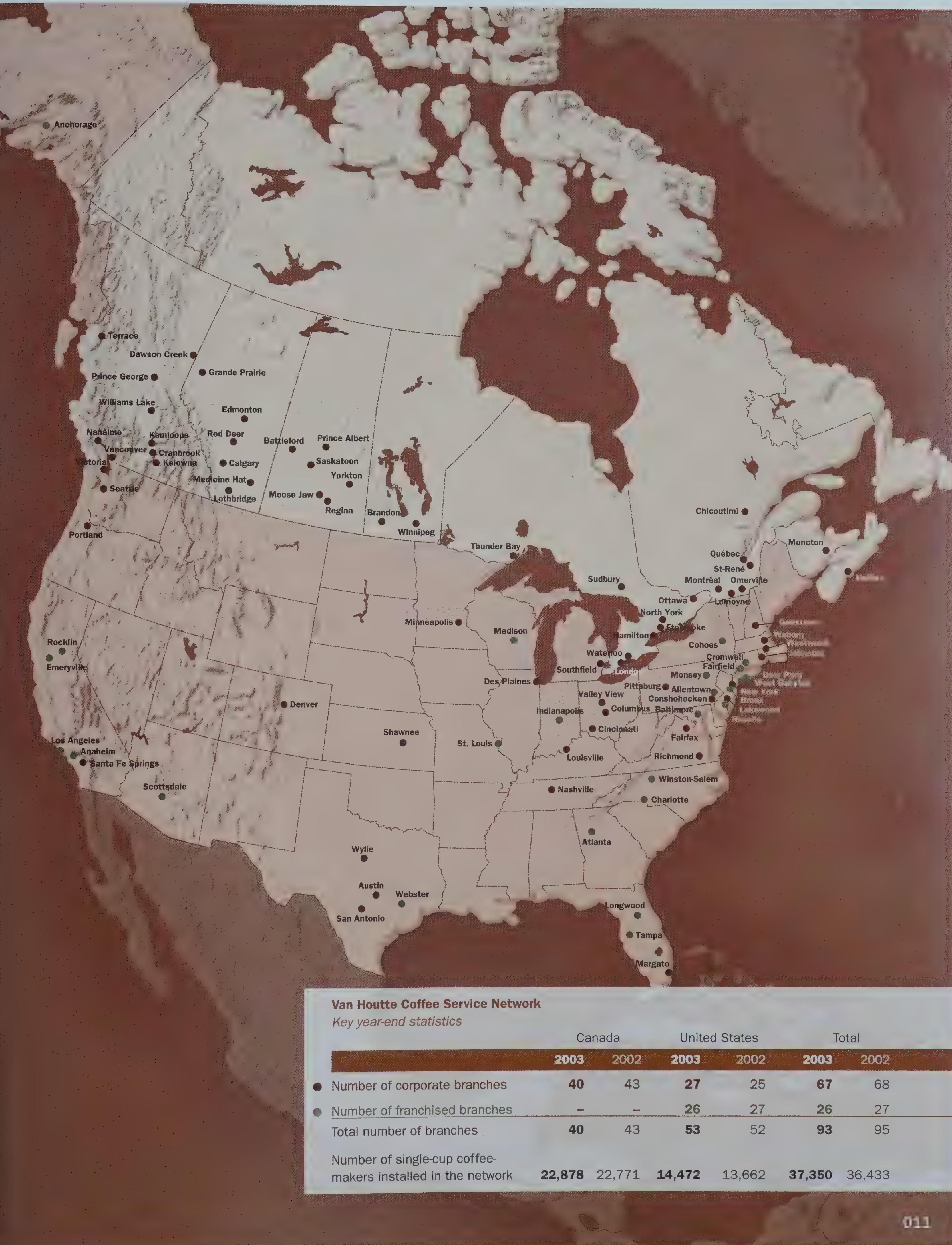
[illegible] ev individuals share a bond with all the other Van [illegible] shareholders through a close community of inter- [illegible] ndeed, because their equity in Van Houtte represents [illegible] portion of their net worth, the Company's [illegible] have a vested interest in seeing Van Houtte [illegible]h for all its owners.

[illegible]tivated shareholders possess in-depth know- [illegible] of the Company, its operation and its competitive [illegible] This invaluable knowledge complements the [illegible] of the outside directors who bring objectivity [illegible]ss-fertilization made possible by their familiarity with [illegible]rial sectors.

After a year characterized by a successful strategic refocusing, the Board of Directors has entrusted the management of Van Houtte to Jean-Yves Monette, a member of our management team for the past nine years. A veteran with over thirty years' management experience in the retail food sector, including fifteen years in the coffee industry, Mr. Monette joined Van Houtte as president of the Coffee Group in 1994 and was promoted last year to the position of president, Coffee Operations, and executive vice-president. His track record speaks for itself, and we are confident that under the management of Jean-Yves and his solid team, Van Houtte will enjoy growth and profitability that lives up to its potential.

On behalf of the members of the Board, I would like to thank Marc G. Fortier for his contribution to Van Houtte as its president and CEO and welcome his successor Jean-Yves Monette. He and his team can be assured of the Board's full support. We know that the Company is in good hands with Jean-Yves Monette at the helm.

Paul-André Guillotte,
Chairman of the Board



Van Houtte Coffee Service Network

Key year-end statistics

	Canada		United States		Total	
	2003	2002	**2003**	2002	**2003**	2002
● Number of corporate branches	**40**	43	**27**	25	**67**	68
● Number of franchised branches	**–**	–	**26**	27	**26**	27
Total number of branches	**40**	43	**53**	52	**93**	95
Number of single-cup coffee-makers installed in the network	**22,878**	22,771	**14,472**	13,662	**37,350**	36,433

POISED for a

As announced last year, fiscal 2003 would be a year of refocusing. Fiscal 2004 will be the year of redeployment.

After several years of accelerated growth, largely through acquisitions, we decided the time had come to take stock and review our business models based on Van Houtte's current size and geographic scope.

We took advantage of this time to assess our true competitive advantages, whose key elements have always been and will continue to be the quality of our coffees and our brand image. While consumer tastes have become more refined over the past few years, giving Van Houtte a definite edge, brewing technologies have also proliferated, with the result that single-cup brewing technology in itself no longer provides the unique competitive lead that allowed us to become North America's leader in coffee services.

Our reflection in this regard has led us to conclude that we now set ourselves apart as the "total coffee solution." As the only fully integrated fine coffee roaster in North America:

- We source the best arabica green coffees in the world.
- We formulate, roast and package our own superior-quality coffees.
- We use every possible channel to distribute our products: retail, workplace, institutional, restaurants, bistros and e-commerce.

Executive Management Committee

From left to right:
Gérard Geoffrion, *Executive Vice-President and CFO*;
Jean-Yves Monette, *President and CEO*; and
Roger Cohen, *President, Van Houtte USA*

new growth phase.

- We offer workplaces and institutional milieus an unparalleled range of coffeemakers and brewers designed to meet all types of needs.
- Thanks to our expertise in brewing and to our VKI Technologies subsidiary's know-how in brewer design and manufacturing, we have effective control over our technological base, making sure it is state-of-the art.

Our industry is coffee. Our business is providing the pleasure of superior-tasting coffee, regardless where it is consumed. We want to be recognized by coffee connoisseurs as the brand of reference for the finest cup of coffee at home, at work or at play. We will achieve this by captivating North American consumers – one cup at a time.

We operate in the high-end market, characterized by coffee and brewing excellence but also by superior equipment, merchandising and customer service, be it for the supply of coffee and drinks or brewer maintenance.

2002-2003 : a year of refocusing

The purpose of this past year's refocusing was to maintain, and above all, ensure the consistent quality of our consumer offering.

Over time and through acquisitions, Van Houtte has created considerable value for its shareholders, customers and business partners. While most of this value has materialized, a portion remains unrealized as a result of two related reasons.

First, we have not fully leveraged the "network effect" in the coffee services sector. As the number of establishments grew and stretched all across North America, we did not exploit the full competitive advantage that this network offered, particularly in the market of large multi-site businesses. The refocusing exercise conducted this year involved making the necessary organizational changes to fully leverage this advantage both in the U.S. and in Canada.

Second, we have also not fully leveraged the value of the "quality effect." In relation to our local and regional competitors, our size allows us to deliver more professional service. Implemented when Van Houtte was much smaller, our business models did not optimize this potential. In the U.S., as in Canada, we have spent the year analyzing and evaluating our business models and processes. As a result, we have developed new ways of organizing our work. While we certainly eliminated inefficiencies and unnecessary costs, the overriding goal of this reorganization was to make sure that the quality of our service is as high and uniform as that of our coffee and brand image. As well, we have completed our portfolio of merchandising and brand management tools.

2003-2004: the year of redeployment

Thus we are now in a position to profitably resume our growth. Fiscal 2003-2004 will be the year of redeployment.

This redeployment will take place in a separate but coordinated manner in each of our four distribution channels: retail, coffee services, bistros and hotels, restaurants and institutions ("HRI").

On our various markets, our strategy will be adapted to our positioning, which varies with the territory. For example, we are the leader in Quebec, and we will do whatever it takes to hold on to that title. In the other Canadian regions, we will pursue aggressive penetration strategies to play a leading role in this market's ongoing conversion to gourmet coffees. Lastly, in the U.S., we will seize growth opportunities, primarily by densifying our networks and by expanding our footprint on the market.

In the *retail markets*, our strategy relies on two key advantages that underpin our success in Quebec and that we can reproduce elsewhere: superior, consistent quality coffees, and merchandising concepts and tools that support and encourage retailers to promote our products.

As for *coffee services*, we will fuel our organic growth, having adapted existing development tools or created new [illegible] designed to help us more efficiently prospect for and [illegible] regional and national customers, as well as [illegible] processes that boost the retention rate [illegible] evelopment of established customers. To this end, [illegible] ncreased the number of sales representatives [illegible] n the U.S. and nearly 40% in Canada. [illegible] lterfresh will continue with its Van Houtte [illegible] on strategy for the coffee services network [illegible] e time will implement an "open model" [illegible] eby Filterfresh will offer an expanded [illegible] ncludes not only the Van Houtte name [illegible] entary brands with a view to satisfying [illegible] needs. This strategy will be used [illegible] ere Van Houtte has concluded that it [illegible] tly to create a lasting competitive edge [illegible] brand. Filterfresh will therefore set [illegible] tion by the variety of brewers, [illegible] it offers consumers.

[illegible] step up our coffee services acquisition [illegible] mainly in the U.S., in order to [illegible] enerate economies of scale.

The *café-bistro* sector, for the time being, remains exclusive to Quebec. After updating our concept and renovating our existing café-bistros, we will launch an aggressive expansion plan across Quebec using our traditional franchising formula.

Lastly, we will go after the HRI market more systematically. We believe that the new Espresso Café machine provides us with a competitive edge comparable to the one gained in the office market a few years ago by our single cup brewing technology (see p. 23).

The key: execution

We have all the ingredients for success: quality of products, excellent brand image and proven merchandising material, state-of-the-art and at times proprietary equipment, and above all, competent employees dedicated to Van Houtte quality. Still, resuming growth will not be automatic or even easy. Indeed, our redeployment will be a challenge. In the U.S. and in certain Canadian regions, we must contend with a job market that has not yet fully recovered. We must make sure that the changes made as part of the refocusing exercise continue to produce results. Finally, our execution must be flawless and the quality of our service must always reflect the quality of our products and brand image. Given our top-notch team, products and equipment and strategic positioning in a promising market, we are confident that we can successfully meet this challenge.

In closing, I would like to thank the 1,750 employees of Van Houtte in Canada and the U.S. who in addition to running the Company's operations last year devoted time to preparing for its next growth phase. All of us, officers, directors and shareholders, are indebted to them for Van Houtte's improved performance.

Thank you as well to the members of the Board whose support, questioning and advice are invaluable and inspire us to reach new heights.

Jean-Yves Monette
President and Chief Executive Officer

Focusing on the consumer by offering TOTAL COFFEE SOLUTIONS

Van Houtte is the only fully integrated coffee roaster in North America, offering a vast selection of the best coffees in the world, an assortment of brands tailored to various market segments, a line of coffeemakers adapted to every type of need, effective merchandising concepts, and premier customer service. No one but Van Houtte offers all these advantages. Van Houtte is the ultimate in total coffee solutions!

VAN HOUTTE

North Americans do not necessarily drink more coffee than before. But at home, at work or in restaurants, they do drink better coffee. The leading gourmet coffee producer in Canada, present in several regions in the U.S., Van Houtte is a driving force of this market transformation.

"Socially Responsible" coffee

Café-Bistro

From left to right:
Stéphane Breault
and Rocco Sgro

In September 2002, Van Houtte launched a new gourmet coffee in partnership with CARE Canada that will help small producers in Honduras become a self-sufficient and viable economic force.

Roasted, processed and marketed by Van Houtte, the coffee is produced by the Honduran Cooperative Empresa San Luis and is supported by CARE Canada.

According to the president of Empresa San Luis, after only a few months in operation, the project has shown concrete results. Breaking the existing monopoly resulted in a 30% increase in selling price, a 50% decrease in seasonal financing interest rates, new infrastructures and equipment.

Honduras San Luis is available in supermarkets and Van Houtte café-bistros, and through its coffee services branches. It can also be purchased online.

at the core of the coffee market transformation.

In Quebec, while supermarket sales of regular ground coffee decreased 1.2% per year between 1994 and 2002, gourmet coffee sales increased 15.6% per year. Indeed, gourmet coffee today accounts for nearly half of all ground coffee sales in Quebec supermarkets. This change in Quebecers' consumption can, for the most part, be attributed to Van Houtte's retail marketing and merchandising concepts.

Although each North American region is a market with its own distinctive characteristics, the transformation that occurred in Quebec is also taking place in other parts of the continent. In fact, it is estimated that gourmet coffee today accounts for nearly 30% of ground coffee sales in Canadian supermarkets outside Quebec.

Already a leader in the Quebec market, Van Houtte is rapidly developing a stronger foothold in retail markets in the rest of Canada and in some regions of the United States. At the end of fiscal 2003, Van Houtte coffees were sold in 830 Canadian points of sale outside Quebec, up 15% over the previous year.

Retail Canada

From left to right:
Denis Graus, Serge Perrault, David Laurie and Serge Ouellette

COFFEE SERVICES:

focusing on the customer to fuel growth.

A flexible service offering tailored to each customer's needs together with flawless execution is how Van Houtte intends to satisfy each and every customer, ensuring a lasting competitive edge to fuel its growth in the coffee services sector.

Coffee Services Canada

From left to right
Robert Mann, Catharine Horne, Carolyn Gudz, Jamie Livingston, Jacques Brunelle, Bruce Andrew, Lucia Pollice and Anand Khanzode

Client satisfaction

In Canada, this overriding concern is embodied in Van Houtte's new business model, which was developed and honed in Montreal, and will be implemented elsewhere in Canada. The new model:

- Specializes in two different types of positions, the tasks of sales and customer service.
- Merges operations in urban centres formerly served by more than one branch. For example, the Montreal region, which was served by four branches is now served by only one. A similar reorganization will take place in Toronto and Calgary in 2003-2004.
- Optimizes logistics by using a software application developed and marketed by UPS. In Montreal, the number of distribution routes has decreased from 29 to 24.

These changes have had a very positive impact, significantly reducing the error rate in order preparation, the number and duration of back orders, and the response time to service calls and un-programmed orders. These improvements have had the desired effect. For instance in Montreal, the client retention rate increased significantly.

Although these changes target growth by improving service, they have also had an impact on operating efficiency and by extension, on certain cost items. For example, inventory in Montreal has decreased by a third.

In the U.S., the bid for improved efficiency and better cost control has been successful. Filterfresh has streamlined its administrative structure and set up better cost controls for its headquarters, branches and joint ventures, resulting in recurring annual savings of over US$3.3 million.

The Company applied the same rigour to asset management, decreasing capital expenditures and significantly reducing the age of accounts receivables.

Coffee Services USA

From left to right:
Walter Prokopchuk, Ed Holloran, Roger Cohen and Miles Malanowich

On a more fundamental basis, after conducting market and customer research, Filterfresh decided it would gain a competitive advantage by implementing a model aimed at satisfying all of its customers' needs for coffee, beverages and related products. As such, Filterfresh will make its mark by offering the best selection and best quality of brewers, the most extensive selection of top-quality coffees, and the best service.

Faster growth

Both in Canada and the U.S., Van Houtte has reorganized and strengthened its sales service.

Market development was divided into two functions. Henceforth, sales representatives will focus exclusively on recruiting new customers by highlighting Van Houtte's advantages: the selection of brewers and coffees, its ability to efficiently serve customers of any size, and its service quality. The creation of such positions as regional account and national account managers is intended to facilitate and stimulate the recruitment of regional- and national-scope customers in Canada and the U.S.

For their part, the mission of the local account managers is to grow their existing accounts by analysing their customers' consumption, their needs and the best way to satisfy them.

Furthermore, Van Houtte will continue to grow through acquisitions in the coffee services sector. The Company has enhanced its strategy in this regard, having adopted stricter criteria for acquiring and integrating companies.

Coffee Roasting & Administration

From left to right:
Richard Noël, Roger Leblanc, François Labelle, Alberto Mouron, Johanne Brady, Johanne Groulx, Marie-Claude Dessureault, and Richard Clermont

Espresso Café™:
Real cappuccino, real simple

Two years in the making, the machine was originally known as VOG. Now called Espresso Café™, the final product is a new fully-automated specialty coffee maker developed by VKI Technologies together with Malongo, a European leader in espresso coffee. At the touch of a button, this breakthrough technology automatically froths real milk to create the perfect cappuccino or caffè latte and makes an excellent espresso or Americano coffee. The VKI Technologies team has successfully developed an espresso machine that offers unparalleled features such as:

- An **authentic** espresso **brewing process**;
- Specialty coffee brewed one cup at a time in **45 seconds**;
- The **simplicity of use** eliminates the need for training personnel;
- Coffee pod technology **ensures freshness and quality**;
- **Real milk formula** needs no refrigeration;
- Unique **patented milk delivery system** minimizes maintenance.

With the launch of its Espresso Café™ solution, Van Houtte is once again poised to dramatically change the North American coffee market, much as it did when it pioneered single-cup coffee brewing technology.

Although the Espresso Café™ completes the line of equipment offered to coffee aficionados in the workplace, it also targets the hotel, restaurant and institutional sectors that can now benefit from a brewer that is easier to use and more economical than traditional coffee makers without sacrificing quality. Espresso Café™ thus opens a whole new channel for Van Houtte.

Marketing

From left to right:
Martin Rivard, Alain Racicot and Joseph Audi

Yes...

A real web café!

Since October 2002, coffee lovers have been able to buy their Van Houtte coffee online where they can choose from a series of pre-made gift collections or create their own collection of Van Houtte gourmet, international or flavoured coffees. They can also purchase accessories such as high-end coffeemakers, cups, bowls and saucers, airtight coffee canisters and frothing pitchers.

Thus, Van Houtte's variety of fine coffees are now more accessible to consumers in areas where Van Houtte is not yet available.

Visit www.vanhoutte.com

Finance & Control

From left to right
Ronald McArthur, Robert St-Jean, Michèle Duplessis, Sylvie Pellerin, Normand De Césaré and Thierry Pejot-Charrost

VKI technologies

VKI Technologies is the Van Houtte subsidiary that designs, manufactures and markets single-cup brewers and related products. While it sells most of its products to Van Houtte's Canadian and American coffee services networks, VKI is increasingly selling to external customers.

Market needs underpin the research and development activities of VKI, which in 2002-2003 realized half of its sales with products launched on the market less than a year ago.

During the year, VKI completed the development of Espresso Café™, a revolutionary low-maintenance brewer that quickly and easily prepares single servings of cappuccinos, café lattes, espressos and americanos.

During the year, VKI also launched the T 200, a new single cup machine that brews hot or iced tea. The company has also started manufacturing and selling the Scalehammer™, a device that reduces calcium deposits using the science of magnetohydrodynamics. This small, easy-to-install device has both commercial and residential applications.

This past year VKI also launched production of the new Keurig B2003, a coffeemaker developed by the American company Keurig Inc. in which Van Houtte holds a 27% interest. The Keurig B2003 uses the *Keurig® Premium Coffee System™*, a single-cup brewing system that uses pre-packaged coffee cups that serve both as the container and the brewing chamber. Each individually sealed cup protects the pre-measured coffee from air, light and moisture, resulting in a perfectly brewed cup of coffee. VKI sold more than 4,300 of these brewers during fiscal 2003. Thanks to an automated quality control system, not one machine was returned by a customer.

VKI's ISO 9001 certification, first obtained in 2001, was renewed in fiscal 2003.

VKI Technologies

From left to right:
Mario Tougas, Ricardo Tozzi and Angelo Mottillo

MANAGEMENT'S DISCUSSION
and analysis of operating results and financial position[1]

New accounting policies

As indicated in Note 1 of the consolidated financial statements for the fiscal year ended March 29, 2003, the Company has adopted the new accounting practices regarding goodwill and other intangible assets as well as the new disclosure standards concerning stock-based compensation and other payments.

The fact that goodwill is no longer amortized is the only change that has a significant impact on the Company's consolidated financial statements. Last year, amortization of goodwill stood at $4.4 million.

Non-recurring items and discontinued operations

When comparing the results of fiscal 2003 and 2002, the impact of the results of a discontinued operation and the recording of non-recurring items must be taken into account.

Following the sale of its coffee services units in Eastern Europe, and given that these were the Company's only European operations, Van Houtte decided to record them as a "discontinued operation" for the current and previous fiscal year. The results of this discontinued operation include the operating losses incurred in Eastern Europe up to the date of the transaction (March 19, 2003), as well as related write-offs and write-downs. The after-tax loss for the discontinued operation amounted to $147,000 or $0.01 per share for fiscal 2002 and $1.3 million or $0.06 per share for fiscal 2003.

Van Houtte recorded non-recurring items relating to the integration of information management systems, the disposal of its interest in a satellite company, and adjustments pertaining to the disposal in 2002 of a USRefresh unit acquired in February a year earlier. In accordance with the relevant Canadian accounting principles, the goodwill pertaining to the U.S. coffee services operations were reduced proportionally to the size of the divested operations.

Total non-recurring items for fiscal 2003 thus amounted to $5.2 million before taxes, that is, $3.6 million or $0.07 per share after taxes.

Earnings from continuing operations before non-recurring items amounted to $19.6 million or $0.91 per share. After the effect of the non-recurring items, Van Houtte realized earnings from continuing operations of $16.0 million or $0.74 per share for fiscal 2003, compared with $9.7 million or $0.44 per share (before amortization of goodwill) a year earlier.

Operating Results

For the fiscal year ended March 29, 2003, Van Houtte recorded consolidated sales of $316.8 million, compared with $316.3 million in 2002. The decline in sales recorded at the beginning of the year reversed itself and has been fully offset by the growth achieved in the last three quarters of the fiscal year.

Coffee shipments for the year ended March 29, 2003 advanced 4.4% to 23.1 million pounds.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) stood at $61.6 million, against $63.8 million the previous year.The operating ratio (EBITDA/sales) was 19.4%, compared with 20.2% in 2002. This decrease is attributable to transitional costs incurred during the year to improve the Canadian coffee services business model.

[1] *Van Houtte Inc. ("Van Houtte" or the "Company") makes coffee, a commodity subject to price fluctuations, both on the selling and purchasing ends. As such, sales are a less than perfect indicator of the Company's growth, which should also be assessed using other indicators that management consider significant, namely, the number of pounds of coffee sold and the number of brewing machines installed.*

Share Performance

(in dollars)

Amortization was $29.8 million for the fiscal year ended March 29, 2003, against $27.8 million a year earlier (excluding amortization of goodwill). This growth stems from the increase in the Company's equipment base and fixed assets resulting from acquisitions completed in the past two years, primarily in the U.S., as well as investments made in the Montreal roasting plant and in VKI.

Financial expenses amounted to $5.4 million, compared with $4.9 million last year. This increase includes costs associated with interest-rate forward contracts that protect the Company from future interest rate hikes.

Earnings from continuing operations before non-recurring items reached $19.6 million or $0.91 per share, compared with earnings from continuing operations before non-recurring items (but after amortization of goodwill) of $18.3 million or $0.84 per share year over year.

Net earnings stood at $14.7 million or $0.68 per share, versus earnings before amortization of goodwill of $9.7 million or $0.44 per share in 2002.

Segmented Analysis

The information in the segmented analysis is presented separately for Canada and the U.S., the Company's core areas of activity.

Canada

Canadian operations comprise coffee sold in Canada by the retail and coffee services networks, as well as revenues from café-bistros and vending machines.

Van Houtte's Canadian sales amounted to $229.1 million for the year ended March 29, 2003, virtually unchanged from the $228.6 million recorded a year earlier. This performance is the result of a slight gain in retail sales, stable sales in the coffee services network, and a decline in vending machine sales.

EBITDA stood at $50.7 million in 2003, compared with $53 million last year. This drop is attributable to a temporary increase in administrative expenses pertaining to coffee service operations, for which the business model was revised in Quebec during the year. Essentially, these expenses stem from merging into one the four Montreal coffee services branches and the termination of a few positions.

Unaudited Quarterly Financial Results

(In $000s, except for share amounts)
The amounts for the fiscal year ended March 30, 2002 were adjusted to reflect the discontinued operation.

	16 weeks ended:	12 weeks ended:			16 weeks ended:	12 weeks ended:		
	20-07-02	12-10-02	4-01-03	29-03-03	21-07-01	13-10-01	5-01-02	30-03-02
Sales (continuing operations)	**94,402**	**69,388**	**75,363**	**77,615**	96,264	68,503	74,647	76,914
EBITDA (continuing operations)	**17,849**	**13,707**	**15,436**	**14,618**	20,314	14,980	16,397	12,137
Net earnings	**5,348**	**903**	**5,126**	**3,351**	7,006	4,545	5,312	(11,687)
Earnings per share ($)	**0.25**	**0.04**	**0.23**	**0.16**	0.32	0.21	0.25	(0.54)
Non-recurring items (after taxes)	**–**	**3,916**	**–**	**(292)**	–	–	–	12,960
Discontinued operation (after taxes)	**–**	**–**	**–**	**1,260**	–	–	–	147
Earnings from continuing operations before non-recurring items	**5,348**	**4,819**	**5,126**	**4,319**	7,006	4,545	5,312	1,420
Earnings per share before non-recurring items ($)	**0.25**	**0.21**	**0.25**	**0.20**	0.32	0.20	0.25	0.07

U.S. operations

Van Houtte's American operations include retail and coffee services sales generated in the U.S.

Van Houtte USA recorded sales of $88.5 million, compared with $87.0 million a year earlier, an increase of 1.8%. The result of coffee services acquisitions made during the year, this improvement was achieved despite a persistently sluggish job market in the U.S.

EBITDA jumped 23.0%, from $10.6 million to $13.0 million, reflecting a streamlined structure, improved management and tighter control over expenses.

Cash Resources and Financial Position

Liquidity: cash flow from operations up 3.9%

Van Houtte continues to generate strong cash flows. Operating cash flow advanced 3.9% over last year to reach $50.7 million. Cash flow per share stood at $2.35 ($2.34 fully diluted), against $2.26 a year earlier ($2.23 fully diluted).

Changes in non-cash working capital used $3.8 million in cash, compared with $3.0 million in 2002. Excluding these changes, Van Houtte generated cash flows of $46.9 million, which will be used to finance the Company's growth and pay dividends.

The Company invested $36.8 million to maintain and expand its asset base in 2003, including $5 million for the acquisition of coffee service companies. Although this amount is less than that spent in the past few years, this decrease reflects the Company's priority in fiscal 2003, which was to review the coffee services business model in the U.S. and Canada. The pace of acquisitions should pick up in 2004.

In line with its business plan, the Company spent $32.3 million on fixed assets in 2003, compared with $37.2 million last year, mainly to acquire coffeemakers and make improvements to its roasting plants. These purchases were financed by cash flow from operations.

Van Houtte paid out $4.3 million in dividends to its shareholders.

Financial position, cash requirements and outlook

Working capital (not including the short-term portion of long-term debt) stood at $45.6 million on March 29, 2003, against $39.1 million a year earlier. The difference stems primarily from the increase in the Company's cash position.

Long-term assets consist of investments, fixed assets, goodwill, other assets and future income taxes. Fixed assets declined slightly due to the disposal and write-down of assets, mainly obsolete coffeemakers located mostly in Western Canada, whose value had been almost fully amortized.

The Company's debt load (including the short-term portion of long-term debt) decreased in 2003 from $119.7 million to $114.1 million. The debt-capital ratio stood at 33.5% at March 29, 2003, against 35.1% a year earlier.

Van Houtte intends to remain on schedule for improving its operating efficiency and re-energizing its growth. The Company will complete the rollout of its revamped business model for coffee services in Canada on which it is banking to stimulate organic growth and make its operating base more profitable. Van Houtte is profitable, generates high cash flows and is poised to support its next growth phase with solid competitive advantages, provided the economic environment is adequate.

As for the increased strength of the Canadian dollar versus the U.S. currency, Van Houtte's management believes that its impact will be neutral, on the one hand by its purchase of forward exchange contracts, and on the other, by the nature of the Company's operations.

Management plans to invest some $30 million on fixed assets during the year. The Company's business plan calls for stepping up acquisitions compared to last fiscal year, particularly in the U.S.

Van Houtte's operations generate substantial cash flows. Depreciation for fiscal 2004 is projected at $31 million. As at March 29, 2003, Van Houtte had unused credit facilities of $41.4 million.

In management's opinion, the Company has the financial resources required to pursue its operations and implement its business plan.

Dividend policy

The dividend policy established by the Board of Directors calls for deciding at mid-year whether dividends should be paid, and if so, the payout amount based on the Company's financial position and investment plans. Thus a dividend of $0.20 per share was paid in fiscal 2003, corresponding to approximately 9% of the previous year's cash flow.

Forward-looking information

This analysis contains forward-looking statements reflecting Van Houtte's objectives, estimates and expectations. Such statements may be marked by the use of verbs such as "believe," "anticipate," "estimate" and "expect" as well as the use of the future or conditional tense. By their very nature, such statements involve risks and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

Risks and Uncertainties

Van Houtte's main product is coffee, a commodity subject to considerable price fluctuations. An increase in the price of coffee that cannot be passed on to the consumer can adversely affect profit margins. However, given that it specializes in gourmet coffee—a segment that generates higher margins than mainstream coffee—Van Houtte enjoys a certain degree of pricing flexibility. Moreover, Van Houtte has learned from its own experience that price sensitivity is less pronounced in the gourmet coffee segment since consumers are already prepared to pay more for a superior product.

Coffee services account for nearly 60% of the Company's total sales and EBITDA. Because these services are offered essentially to workplaces, particularly offices, demand is impacted by the general economic and employment situation.

Management's Report

The consolidated financial statements contained in this annual report have been prepared in accordance with generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are management's responsibility. All other information in the annual report is consistent with the information and data contained in the financial statements.

In support of its responsibility, management maintains a system of internal control to provide assurance as to the reliability of financial information and the safeguarding of assets. The Board of Directors is responsible for the financial statements. Its Audit Committee reviews the contents of the financial statements prior to their approval by the Board of Directors.

The external auditors, KPMG, conduct an independent examination in accordance with generally accepted auditing standards and express their opinion on the financial statements. Their report is presented below.

Marc G. Fortier[1]
President and Chief Executive Officer

Gérard Geoffrion
Executive Vice-President and
Chief Financial Officer

May 16, 2003

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Van Houtte Inc. as at March 29, 2003 and March 30, 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 29, 2003 and March 30, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Montreal, Canada

May 16, 2003

[1] *Mr. Fortier was President and Chief Executive Officer until July 15, 2003, at which date Mr. Jean-Yves Monette succeeded him.*

Consolidated Statements of Earnings

Years ended March 29, 2003 and March 30, 2002
(in thousands of dollars, except for earnings per share data)

	2003	2002
		(Restated, see Note 6)
Revenues	**$ 316,768**	$ 316,328
Cost of goods sold and operating expenses	**255,158**	252,500
	61,610	63,828
Depreciation and amortization	**29,769**	27,775
Financial expenses *(Note 3)*	**5,378**	4,898
Operating profit before the undernoted	**26,463**	31,155
Non-recurring charges *(Note 4)*	**5,174**	20,018
Income taxes *(Note 5)*	**5,062**	1,676
Earnings before share in net earnings of companies subject to significant influence, non-controlling interest, goodwill amortization and discontinued operations	**16,227**	9,461
Share in net earnings of companies subject to significant influence	**104**	48
Non-controlling interest	**(343)**	204
Earnings before goodwill amortization and discontinued operations	**15,988**	9,713
Goodwill amortization net of non-controlling interest	**–**	4,390
Net earnings before discontinued operations	**15,988**	5,323
Discontinued operations (net of income taxes of $406) *(Note 6)*	**(1,260)**	(147)
Net earnings	**$ 14,728**	$ 5,176
Earnings per share *(Note 7)*		
Basic		
From continued operations		
Before goodwill amortization	**$ 0.74**	$ 0.45
After goodwill amortization	**0.74**	0.25
From discontinued operations	**(0.06)**	(0.01)
Net earnings	**0.68**	0.24
Diluted		
From continued operations		
Before goodwill amortization	**$ 0.74**	$ 0.44
After goodwill amortization	**0.74**	0.24
From discontinued operations	**(0.06)**	(0.01)
Net earnings	**0.68**	0.24
Weighted average number of shares outstanding *(in thousands)*	**21,517**	21,604
Diluted weighted average number of shares *(in thousands)*	**21,657**	21,866

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended March 29, 2003 and March 30, 2002
(In thousands of dollars)

	2003	2002
Retained earnings, beginning of year	**$ 76,791**	$ 81,274
Net earnings	**14,728**	5,176
	91,519	86,450
Dividends	**4,308**	4,313
Premium paid on redemption of subordinate voting shares *(Note 14)*	**1,027**	5,259
Share issue expenses (net of related taxes of $50) *(Note 14)*	**–**	87
Retained earnings, end of year	**$ 86,184**	$ 76,791

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

March 29, 2003 and March 30, 2002 *(In thousands of dollars)*	2003	2002
Assets		
Current assets:		
Cash	**$ 9,148**	$ 4,748
Accounts receivable	**33,652**	38,286
Income taxes receivable	**2,230**	1,748
Inventories *(Note 8)*	**24,402**	23,890
Prepaid expenses	**3,685**	4,487
Future income taxes *(Note 5)*	**1,585**	2,358
	74,702	75,517
Investments *(Note 9)*	**19,479**	21,181
Fixed assets *(Note 10)*	**122,929**	128,168
Goodwill *(Note 11)*	**132,963**	134,851
Other assets *(Note 12)*	**5,398**	6,009
Future income taxes *(Note 5)*	**14,639**	11,972
	$ 370,110	$ 377,698
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 29,101**	$ 36,399
Current portion of long-term debt *(Note 13)*	**30,857**	24,306
	59,958	60,705
Long-term debt *(Note 13)*	**83,226**	95,392
Employee future benefits	**2,775**	3,939
Future income taxes *(Note 5)*	**9,485**	7,462
Non-controlling interest	**2,425**	2,966
Shareholders' equity:		
Capital stock *(Note 14)*	**127,229**	127,838
Retained earnings	**86,184**	76,791
Currency translation adjustment *(Note 15)*	**(1,172)**	2,605
	212,241	207,234
Commitments *(Note 16)*		
Contingencies *(Note 17)*		
	$ 370,110	$ 377,698

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Marc G. Fortier
Director

Jocelyne Pelchat
Director

Consolidated Statements of Cash Flows

Years ended March 29, 2003 and March 30, 2002
(In thousands of dollars)

	2003	2002
		(Restated, see Note 6)
Cash flows from operating activities:		
Net earnings from continued operations:	**$ 15,988**	$ 5,323
Adjustments for:		
Depreciation of fixed assets	**28,310**	26,786
Amortization of other assets	**1,459**	4,703
Amortization of financial expenses	**599**	390
Future income taxes	**(400)**	(8,330)
Non-controlling interest	**343**	(305)
Share in net earnings of companies subject to significant influence, net of dividends received of $81	**(23)**	(48)
Write-down and write-off of fixed assets	**2,911**	18,783
Write-off of other assets	**–**	886
Loss on disposal of investment and unit	**1,740**	–
Loss (gain) on disposal of fixed assets	**2**	(291)
Gain on disposal of businesses	**(85)**	(145)
(Gain) loss on foreign exchange	**(182)**	990
	50,662	48,742
Net change in non-cash balances related to operations *(Note 18)*	**(3,810)**	(3,002)
	46,852	45,740
Cash flows from investing activities:		
Business acquisitions *(Note 19)*	**(5,024)**	(20,438)
Additions to fixed assets	**(32,256)**	(37,236)
Proceeds from disposal of fixed assets	**1,610**	2,240
Proceeds from disposal of investment	**1,504**	–
Acquisitions of investments	**(410)**	(15,566)
Increase in other assets	**(2,216)**	(1,843)
	(36,792)	(72,843)
Cash flows from financing activities:		
Issue of subordinate voting shares	**495**	2,387
Redemption of subordinate voting shares for cancellation	**(2,131)**	(7,396)
Share issue expenses	**–**	(137)
Increase in long-term debt	**1,579**	36,719
Dividends	**(4,308)**	(4,313)
Dividends paid to non-controlling shareholders	**(551)**	(231)
	(4,916)	27,029
Effect of exchange rate changes on cash denominated in foreign currency	**(596)**	(1,060)
Effect of discontinued operations on cash and cash equivalents	**(148)**	47
Net increase (decrease) in cash	**4,400**	(1,087)
Cash, beginning of year	**4,748**	5,835
Cash, end of year	**$ 9,148**	$ 4,748

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 29, 2003 and March 30, 2002
(Tabular amounts are expressed in thousands of dollars)

Van Houtte Inc. is incorporated under the Canada Business Corporations Act.

1 Changes in accounting policies

The Company has made certain changes in accounting policies to conform to the new accounting standards.

(a) Business combinations, goodwill and other intangible assets

In August 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3062, Goodwill and Other Intangible Assets. For business combinations consummated on or before June 30, 2001, the Company adopted on March 30, 2002, the new recommendations of the CICA Handbook. Under these new recommendations, goodwill and intangible assets with indefinite useful lives are not amortized and other identified intangible assets are amortized. In accordance with the requirements of Section 3062, this change in accounting policy was not applied retroactively and the amounts presented for prior periods have not been restated.

As at March 30, 2002, the Company had unamortized goodwill of $134,851,000. The following summarizes the effect of the accounting change if it was applied retroactively:

	2003	2002
Net earnings, as reported	**$ 14,728**	$ 5,176
Goodwill amortization, net of non-controlling interest	**–**	4,390
Net earnings, adjusted	**$ 14,728**	$ 9,566
Adjusted earnings per share:		
Basic	**$ 0.68**	$ 0.44
Diluted	**$ 0.68**	$ 0.44

Under Section 3062, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is not required. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Intangible assets acquired in business combinations and intangible assets acquired individually or with a group of other assets, which have indefinite lives, are also tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in the statement of earnings for the excess, if any. Intangible assets with definite useful lives are amortized over their useful life.

In accordance with the transitional provision of Section 3062, an impairment loss resulting from the first application of the recommendations, is recognized as the effect of a change in accounting policy and charged to opening retained earnings, without restatement of prior periods. As at March 31, 2002 and during the year ended March 29, 2003, the Company concluded that the carrying value of goodwill was not impaired.

(b) Stock-based compensation and other stock-based payments

On March 31, 2002, the Company prospectively adopted the new accounting recommendations published by the CICA relating to stock-based compensation and other stock-based payments made in exchange for goods and services. As per Section 3870 of the CICA Handbook, the Company has chosen to continue using the settlement value method to record stock options granted to senior executives and management. This method consists of not recording compensation expenses for such stock options. Any cash consideration paid by these beneficiaries on exercise of stock options is credited to capital stock.

2 Significant accounting policies

The consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles.

(a) Consolidation and long-term investments

The consolidated financial statements include the accounts of Van Houtte Inc. and all its subsidiaries (the "Company"). The major subsidiaries are Red Carpet Food Systems Inc., Selena Coffee Inc., Filterfresh Coffee Service, Inc., VKI Technologies Inc., Les Cafés Orient Express Ltée, Red Carpet Refreshment Systems Inc. and Selena Food Services Inc.

Investments in joint ventures are accounted for using the proportionate consolidation method. Joint ventures represent a negligible portion of the Company's operations. Investments in companies subject to significant influence are accounted for by the equity method. Portfolio investments are recorded at cost and would be written down in the case of a permanent impairment. Investments in companies in which the Company believes it does not exercise a significant influence are classified as portfolio investments.

(b) Inventories

Raw materials are stated at the lower of cost, based on the first in, first out method, and replacement value. Finished goods and work in process are stated at the lower of average cost and net realizable value.

Raw materials are accounted for at the purchase price set out under the terms and conditions of forward contracts.

(c) Fixed assets

Fixed assets are stated at cost, net of any investment tax credits which are accounted for when qualified expenditures are incurred. Interest expense and other direct costs relating to major capital projects are capitalized to the cost of fixed assets until the commercial production stage.

In the fourth quarter of fiscal year 2002, the management of the Company revised the useful life of its coffee service equipment, its vending machines and of several other fixed assets based on past experience. In accordance with this review, coffee services and vending equipment are being amortized since March 31, 2002 over a seven-year period using the straight-line basis while previously they were amortized using the declining balance basis at an annual rate of 16.67%.

Depreciation is calculated using the straight-line method over the following periods:

Asset	Period
Buildings	20 to 30 years
Coffee service equipment	7 years
Vending machines	12 years
Machinery and equipment	5 to 15 years
Furniture and computer equipment	3 to 10 years
Automotive equipment	3 to 15 years
Leasehold improvements	Term of lease

(d) Other assets

Deferred development costs, net of applicable research and development tax credits, represent costs incurred to develop new coffee brewing equipment, brewers and other. Deferred costs are amortized on a straight-line basis over three years.

Patents and rights are recorded at cost and are amortized using the straight-line method over 17 years.

The deferred financing costs related to long-term financing are amortized using the straight-line method over the term of the related long-term debt.

Other assets, which include start-up costs, are amortized over a period ranging from 3 to 10 years.

Management reviews periodically the value and amortization period of other assets. A permanent decline, if such be the case, will be determined based on future undiscounted cash flows.

NOTES

2 Significant accounting policies (continued)

(e) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the assets are realized or the liabilities settled. Future income tax assets are recognized and, if realization is not considered "more likely than not" a valuation allowance is provided. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

(f) Employee future benefits

The Company accrues the estimated cost of the contractual termination benefits, when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated.

(g) Foreign currency translation

Net assets of self-sustaining foreign operations are translated using the current rate method. Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these foreign operations is realized. Gains or losses on foreign currency balances or transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the Currency translation adjustment account included in shareholders' equity.

Other foreign currency transactions entered into by the Company are translated using the temporal method. Translation gains and losses are included in the statement of earnings.

(h) Derivative financial instruments

The Company uses various derivative financial instruments to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity pricing. The Company does not hold or use any derivative instruments for speculative trading purposes.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities or to specific firm commitments or forecasted transactions.

The Company enters into interest rate swaps in order to manage the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current or non-current assets or liabilities on the balance sheet and recognized in earnings in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in earnings.

(i) Revenue recognition

Revenue is recognized when goods are delivered or when services are provided.

(j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

3 Financial expenses

	2003	2002
Interest on long-term debt	**$ 4,779**	$ 4,508
Amortization of financial expenses	**599**	390
	$ 5,378	$ 4,898

4 Non-recurring charges

	2003	2002
Write-down of fixed assets (i)	**$ –**	$ 11,850
Write-off of fixed assets (i) (ii)	**2,911**	6,933
Loss on disposal of investments and of a business unit (ii)	**1,740**	–
Other restructuring charges	**523**	1,235
	$ 5,174	$ 20,018

(i) In 2002, following changes in market conditions and evolution of the technology, the management of the Company did an in-depth review of the future use of its coffee service equipment and of its vending machines. Therefore, certain pieces of equipment have been written off and others have been written down.

(ii) In 2003, to reflect the new organizational structure and the integration of its Canadian operations, the Company wrote off certain assets related to the integration of its information management systems and the divestiture of a marginal non-strategic unit.

5 Income taxes

Income tax expenses are detailed as follows:

	2003	2002
Current	**$ 5,462**	$ 10,006
Future	**(400)**	(8,330)
	$ 5,062	$ 1,676

The following table reconciles the statutory tax rate with the effective tax rate:

	2003	2002
Combined statutory tax rate	**35.3 %**	38.3 %
Losses recovered at a rate higher than the statutory rate	**(1.4)**	(4.7)
Manufacturing and processing deduction	**(1.0)**	(8.0)
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	**0.5**	4.9
Other items	**(9.6)**	(5.7)
Effective tax rate	**23.8 %**	24.8 %

5 Income taxes (continued)

The tax effects of temporary differences that give rise to significant portion of the future tax assets and future tax liabilities are as follows:

	2003	2002
Future income tax assets - current:		
Employee future benefits	**$ 115**	$ 334
Reserve deductible in future years	**1,470**	2,024
	1,585	2,358
Future income tax assets – non-current:		
Tax losses carried forward	**11,853**	6,968
Employee future benefits	**893**	946
Differences between book and tax bases of fixed assets	**1,750**	3,774
Differences between book and tax bases of other assets	**143**	284
Total future income tax assets	**14,639**	11,972
Future income tax liabilities – non-current:		
Differences between book and tax bases of fixed assets	**4,884**	5,993
Differences between book and tax bases of other assets	**4,601**	1,469
Total future income tax liabilities	**9,485**	7,462
Net future income tax assets	**$ 6,739**	$ 6,868

The Company has not recognized a future tax liability for the undistributed earnings of its subsidiaries in 2003 and in prior years because the Company does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A future tax liability will be recognized when the Company expects that it will recover these undistributed earnings in a taxable manner.

As at March 29, 2003, the Company had non-capital losses to carry forward of $29,523,000 from subsidiaries and capital losses to carry forward of $1,600,000 without expiry dates. These non-capital losses are available to reduce the taxable income of future years and expire at different dates from 2004 to 2023. The future tax asset related to these operating losses has been recorded in the financial statements.

6 Discontinued operations

Entreprises Fairfield Ltée ("Fairfield") operated a coffee service business in the European market. On March 19, 2003, Van Houtte Inc. held a 60% equity interest in Fairfield and accordingly this subsidiary was consolidated in the Company. Fairfield was the only European operation of the Company.

On that date, pursuant to a sale and purchase agreement, Van Houtte Inc. sold all its outstanding shares of Fairfield for a cash consideration of $1. Consequently, the European market segment is considered a discontinued operation and accordingly the results of operations and the cash flows of 2003 and 2002 were adjusted in order to isolate the effect of this discontinued operation. Fairfield's operating results were then presented separately from the beginning of the 2002 year until March 19, 2003, the disposal date.

The following table provides additional financial information related to the discontinued operation for the years ended:

Condensed Consolidated Statements of Earnings	2003	2002
Revenues	**$ 1,379**	$ 733
Loss before non-controlling interest	**$ 923**	$ 147
Non-controlling interest	**(369)**	–
Loss of the discontinued operation	**554**	147
Loss on disposal, net of income taxes of $406	**706**	–
Net loss from the discontinued operation	**$ 1,260**	$ 147

7 Earnings per share

Basic earnings per share is calculated by dividing the net earnings attributable to the common shareholders by the weighted average daily number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net earnings attributable to the common shareholders by the weighted average number of common shares outstanding restated to take into account the potential dilutive impact of the exercise of the stock options under the treasury stock method.

	2003	2002
	(in thousands)	*(in thousands)*
Weighted average number of outstanding common shares	**21,517**	21,604
Potential dilutive impact	**140**	262
Weighted average number of common and dilutive common shares	**21,657**	21,866

8 Inventories

	2003	2002
Raw materials	**$ 7,558**	$ 8,108
Work in process	**692**	748
Finished goods	**16,152**	15,034
	$ 24,402	$ 23,890

9 Investments

	2003	2002
Shares in companies subject to significant influence, voting and participating, at equity value	**$ 2,708**	$ 2,970
Advance to companies subject to significant influence and minority shareholders, without interest nor repayment terms	**1,351**	2,766
Portfolio investment	**15,420**	15,445
	$ 19,479	$ 21,181

10 Fixed assets

			2003
	Cost	Accumulated depreciation	Net book value
Land	**$ 1,571**	**$ –**	**$ 1,571**
Buildings	**14,827**	**4,150**	**10,677**
Coffee service equipment and vending machines	**141,901**	**65,969**	**75,932**
Machinery and equipment	**37,602**	**19,142**	**18,460**
Furniture, computer equipment and leasehold improvements	**22,727**	**13,811**	**8,916**
Automotive equipment	**16,645**	**9,272**	**7,373**
	$ 235,273	**$ 112,344**	**$ 122,929**

10 Fixed assets (continued)

			2002
	Cost	Accumulated depreciation	Net book value
Land	$ 1,624	$ –	$ 1,624
Buildings	14,260	3,756	10,504
Coffee service equipment and vending machines	161,669	81,802	79,867
Machinery and equipment	33,809	18,109	15,700
Furniture, computer equipment and leasehold improvements	25,549	13,766	11,783
Automotive equipment	17,892	9,489	8,403
Construction in progress	287	–	287
	$ 255,090	$ 126,922	$ 128,168

11 Goodwill

For the year ended March 29, 2003, the changes in the carrying amounts of goodwill are as follows:

	Balance as at March 30, 2002 *(note 1 (a))*	Purchases (disposal) of business/ shares of a subsidiary	Non-recurring charges	Translation adjustments	Balance as at March 29, 2003
Canada	$ 71,901	**$ 1,469**	**$ –**	**$ –**	**$ 73,370**
United States	62,950	**3,281**	**(1,333)**	**(5,305)**	**59,593**
	$ 134,851	**$ 4,750**	**$ (1,333)**	**$ (5,305)**	**$ 132,963**

12 Other assets

			2003
	Cost	Accumulated amortization	Net book value
Patents and rights	**$ 1,410**	**$ 703**	**$ 707**
Start-up costs	**1,143**	**211**	**932**
Deferred development costs	**4,331**	**2,005**	**2,326**
Deferred financing costs	**1,953**	**1,135**	**818**
Other assets	**869**	**254**	**615**
	$ 9,706	**$ 4,308**	**$ 5,398**

			2002
	Cost	Accumulated amortization	Net book value
Patents and rights	$ 1,453	$ 400	$ 1,053
Start-up costs	1,162	9	1,153
Deferred development costs	2,464	1,272	1,192
Deferred financing costs	1,771	568	1,203
Other assets	1,623	215	1,408
	$ 8,473	$ 2,464	$ 6,009

13 Long-term debt

	2003	2002
Revolving bank credit facility (i)	**$ 108,617**	$ 111,386
Mortgage loan, 11.75%, repayable in blended monthly installments of $18,000 until November 1, 2003, including principal and interest, secured by land and building having a net book value of $6,246,000	**1,549**	1,583
Due to non-controlling shareholders of subsidiaries (US$1,400,000), bearing interest at 12%, maturing on March 31, 2006	**2,049**	2,233
Mortgage loan, 10.88%, repaid during the year	**–**	719
Other	**1,868**	3,777
	114,083	119,698
Less current portion	**30,857**	24,306
	$ 83,226	$ 95,392

(i) As at March 29, 2003, these borrowings were drawn on a bank credit facility of $150 million. The bank credit facility is composed of two tranches. The first tranche of $60 million is a 364-day revolving facility that can be extended on a yearly basis and the second tranche of $90 million is a three-year revolving facility maturing in October 2005. As at March 29, 2003, $28,585 (Cdn$22,000 and US$4,500) was borrowed under the first tranche, and $80,032 (Cdn$21,500 and US$40,000) under the second tranche. The borrowed amounts of the first tranche are to be reimbursed in full in October 2007 at the latest or if the facility is not extended, while the borrowed amounts of the second tranche will be converted, in October 2005, into a two-year term loan repayable in eight quarterly installments beginning three months following the effective date of the term loan.

The credit agreement governing this bank credit facility contains certain covenants, among which is the obligation to maintain certain financial ratios. The borrowed amounts bear interest at floating rates based on Bankers' Acceptances or the bank prime rate. The bank credit facility is secured by all of the assets of Van Houtte Inc.

In accordance with the terms of various borrowing agreements and excluding any refinancing options, the Company will make the following repayments over the next few years:

2004	$ 30,857
2005	894
2006	12,173
2007	40,064
2008	30,095

14 Capital stock

	2003	2002
Authorized		
Unlimited number of multiple voting shares with voting rights of five votes per share, participating and without par value		
Unlimited number of subordinate voting shares with voting rights of one vote per share, participating and without par value		
Unlimited number of Classes A and B preferred shares, issuable only in series, non-voting and without par value		
Issued and paid		
5,300,000 multiple voting shares	**$ 353**	$ 353
16,139,681 subordinate voting shares (16,235,981 shares in 2002)	**126,876**	127,485
	$ 127,229	$ 127,838

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14 Capital stock (continued)

(a) Share issue and repurchase – 2003

During the year, 140,500 subordinate voting shares were redeemed for a cash consideration of $2,131,000. The excess of the price paid over the average cost of these shares as well as the redemption expenses of $1,027,000 were recorded as a reduction of retained earnings.

During the year, 44,200 subordinate voting shares were issued upon the exercise of stock options, for a cash consideration of $495,350.

(b) Share issue and repurchase – 2002

On December 5, 2001, as part of a private investment, 50,700 subordinate voting shares were issued for a cash consideration of $1,314,840. Share issue expenses were recorded as a reduction of retained earnings.

On July 23, 2001, 200,000 multiple voting shares were exchanged for an equivalent number of subordinate voting shares.

During the year, 273,000 subordinate voting shares were redeemed for a cash consideration of $7,393,000. The excess of the price paid over the average cost of these shares as well as the redemption expenses $5,259,000 were recorded as a reduction of retained earnings.

During the year, 154,300 subordinate voting shares were issued upon the exercise of stock options, for a cash consideration of $1,072,375.

(c) Stock option plan

Under a stock option plan, 1,650,000 subordinate voting shares are reserved for certain employees at the management level of the Company. The exercise price of each option is determined based on the closing trading price of the subordinate voting shares on the business day preceeding the grant. Each option may be exercised during a period not exceeding ten years from the date it was granted.

The following table provides details regarding changes to outstanding options for the years ended March 29, 2003 and March 30, 2002:

	2003		2002	
	Options	**Weighted average exercise price**	**Options**	**Weighted average exercise price**
Balance at beginning	**1,230,599**	**$ 21.42**	1,457,618	$ 20.21
Granted	**320,513**	**18.82**	63,542	27.05
Cancelled	**(325,238)**	**24.47**	(136,261)	27.52
Exercised	**(44,200)**	**11.21**	(154,300)	6.95
Balance at end of year	**1,181,674**	**$ 20.26**	1,230,599	$ 21.42
Vested options at end of year	**590,367**	**$ 17.66**	480,624	$ 15.60

The following table provides summary information regarding outstanding options as at March 29, 2003:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number of outstanding options as at March 29, 2003**	**Weighted average years to maturity**	**Weighted average exercise price**	**Number exercisable as at March 29, 2003**	**Weighted average exercise price**
$ 5 @ 7.5	**200,000**	**1.6**	**$ 6.20**	**200,000**	**$ 6.20**
7.5 @ 10	**18,850**	**2.2**	**9.09**	**18,850**	**9.09**
10 @ 15	**7,000**	**3.9**	**14.00**	**7,000**	**14.00**
15 @ 20	**341,344**	**7.1**	**18.63**	**75,500**	**18.88**
20 @ 25	**337,367**	**6.8**	**23.52**	**170,000**	**23.31**
25 @ 30	**257,113**	**5.5**	**29.24**	**105,684**	**29.50**
30 @ 35	**20,000**	**5.2**	**30.75**	**13,333**	**30.75**
$ 5 @ 35	**1,181,674**	**5.6**	**$ 20.26**	**590,367**	**$ 17.66**

14 Capital stock (continued)

(c) Stock option plan (continued)

Since the beginning of fiscal year 2003, the Company granted 320,513 stock options to senior executives and management at a weighted average exercise price of $18.82. The weighted average fair value of stock options granted was $5.15. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

Risk-free interest rate	4.76%
Expected life	7 years
Expected volatility	27%
Expected dividend yield	$ 0.20

If the stock options had been accounted for based on the fair value based method, proforma net earnings and proforma net earnings per share would have been as follows:

	As reported	Proforma
Net earnings	**$ 14,728**	**$ 13,821**
Earnings per share:		
Basic	**$ 0.68**	**$ 0.64**
Diluted	**$ 0.68**	**$ 0.64**

The proforma figures omit the effect of stock options granted prior to March 31, 2002.

15 Currency translation adjustment

	2003	2002
Balance at beginning	**$ 2,605**	$ 2,005
Effect of exchange rate variation on translation of net assets of U.S. subsidiaries	**(3,777)**	600
Balance at end	**$ (1,172)**	$ 2,605

16 Commitments

(a) The Company rents premises and equipment under operating leases which expire at various dates up to 2013 and for which gross rents total $22,848,000. Of this amount, a portion of $3,968,000 is assumed by the franchisees of the Company. Annual payments under these leases for the next five years are as follows:

	Gross	Franchisees	Net
2004	**$ 6,686**	**$ 1,366**	**$ 5,320**
2005	**4,771**	**898**	**3,873**
2006	**3,932**	**753**	**3,179**
2007	**2,884**	**467**	**2,417**
2008	**4,575**	**484**	**4,091**

(b) A subsidiary of the Company, VKI Technologies Inc., has guaranteed lease obligations to third parties by 11 franchisees of Filterfresh. As security for the guarantees provided, the Company has a lien on the franchisees' licenses and assets. As at March 29, 2003, the Company guarantees a total of US$252,945 (2002 - US$350,152) for lease obligations to third parties. The Company also guarantees lease obligations to third parties for a total of US$ 770,602 (2002 – US$218,999). In the opinion of management, the security for the guarantees provided is adequate.

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17 Contingencies

The Company is involved in various lawsuits and claims. Management is of the opinion that the resolution of these claims would have no material impact on the Company's financial position or results of operations.

18 Additional information on cash flows

	2003	2002
Operating activities		
Changes in non-cash operating working capital items:		
(Increase) decrease in the undernoted items:		
Accounts receivable	**$ 4,198**	$ (3,371)
Inventories	**(512)**	(1,462)
Prepaid expenses	**795**	136
(Decrease) increase in the undernoted items:		
Accounts payable and accrued liabilities	**(6,535)**	2,959
Income taxes payable	**(401)**	(2,748)
Employee future benefits	**(903)**	–
Working capital acquired	**(452)**	1,484
	$ (3,810)	$ (3,002)
Cash payments of interest and income taxes were as follows:		
Cash interest payments	**$ 5,174**	$ 5,108
Cash payments for income taxes	**$ 4,979**	$ 11,451
Purchase of fixed assets financed by accounts payable	**$ 652**	$ 1,257

19 Business and asset acquisitions and disposals

The business combinations are accounted for using the purchase method. Results of the businesses acquired are included from the date of the acquisition in the financial statements of the Company.

(a) 2003

During the year, the Company acquired coffee service businesses for a total cash consideration of $5,024,000.

(b) 2002

During the year, the Company acquired various coffee service businesses for a total cash consideration of $19,730,000. Moreover, an amount of $708,000 was paid in cash for the acquisition of Gold Cup Coffee Company Ltd. representing the final contingent payment of the purchase price, based on a pre-determined formula at the time of the acquisition. This amount was recorded as goodwill.

The acquisitions are summarized as follows:

	2003	2002
Assets acquired:		
Non-cash operating working capital	**$ (452)**	$ 1,484
Fixed assets	**1,117**	4,634
Other assets	**–**	799
Goodwill	**4,665**	13,884
	5,330	20,801
Liabilities assumed:		
Long-term debt	**306**	–
Non-controlling interest	**–**	363
Net assets acquired at fair value	**$ 5,024**	$ 20,438
Cash consideration paid	**$ 5,024**	$ 20,438

20 Financial instruments

(a) Fair value

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of the near-term maturity of these instruments. The carrying value of the revolving term loan and other debt approximates its fair value, as the interest rates vary based on market rate. The estimated fair value of mortgage loan and of the amount due to non-controlling shareholders, calculated at the value of contractual future payments of principal and interest, discounted at the current market rate of interest available to the Company for the same type of debt instrument, is $3,768,000 (2002 - $4,788,356). The negative fair value of the interest rate swap is $648,872.

(b) Management of interest risk

The Company has entered into interest rate swaps to manage its interest rate exposure on a part of the revolving bank credit. The Company is committed to exchange, at specific intervals, the difference between the fixed and floating interest rates calculated by reference to the notional amounts. As at March 29, 2003, the Company will pay a fixed interest rate of 4.86% on a notional amount of $30,000,000 and will receive a floating interest based on Bankers' Acceptance having a three-month maturity. The swap will expire in July 2007.

The Company does not foresee any failure by the counterparties to these contracts as it is a financially-sound Canadian bank.

(c) Foreign exchange risk

The Company makes some of its purchases in US dollars and enters into various types of foreign exchange forward contracts in order to manage its foreign exchange risk. The Company does not hold nor issue such financial instruments for trading purposes. As at March 29, 2003 and March 30, 2002, there were no such forward exchange contracts outstanding.

(d) Credit risk

The Company does not have a significant exposure to any individual customer nor counterparty. The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors such as the credit risk for specific customers, historical trends and other information.

(e) Other risk

The Company also has a significant exposure toward the fluctuation of the price of green coffee. The Company purchases, from time to time, coffee contracts on a public commodities market in order to manage its price risk. As at March 29, 2003, the Company had contracts for 6.2 million pounds of green coffee having a negative fair value of $678,956 and as at March 30, 2002, the Company had contracts for 8 million pounds of green coffee having a positive fair value of $640,706.

21 Segmented information

At the end of the first quarter, the Company changed its organizational structure. The new structure reflects the Company's desire to integrate its Canadian operations and thus, be better poised to seize market opportunities and eliminate the duplication of activities and expenditures, while recognizing the respective uniqueness of the Canadian and American markets. Thus, all its Canadian distribution channels, coffee services and retail networks alike were consolidated within a single operating unit, which also includes all the Company's roasting operations. Another operating unit was created to encompass all of Van Houtte's US distribution channels.

Consequently, segmented information will henceforth distinguish between Canada and the U.S., the Company's two main areas of business.

These segments are managed separately, since they all require specific marketing strategies. The Company assesses the performance of each segment based on operating income before depreciation, amortization, financial expenses and non-recurring items.

The accounting policies of each segment are identical to the accounting policies used for consolidated financial statements.

Segment income includes income from sales to third parties and inter-segment sales. These sales are accounted for at prevailing market prices.

21 Segmented information (continued)

	2003	2002
Business segments		
Revenues		
Canada	**$ 229,126**	$ 228,576
United States	**88,523**	86,961
	317,649	315,537
General corporate revenues and others	**8,035**	5,788
Intersegment	**(8,916)**	(4,997)
	$ 316,768	$ 316,328
Operating earnings before depreciation and amortization, financial expenses and non-recurring items:		
Canada	**$ 50,691**	$ 53,006
United States	**13,005**	10,571
	63,696	63,577
General corporate (expenses) revenues	**(2,086)**	251
	$ 61,610	$ 63,828
Fixed assets and goodwill:		
Canada	**$ 141,086**	$ 141,520
United States	**92,844**	100,302
	233,930	241,822
General corporate assets and intersegment and others	**21,962**	21,197
	$ 255,892	$ 263,019
Additions to fixed assets and other assets:		
Canada	**$ 23,457**	$ 27,642
United States	**6,555**	10,013
	30,012	37,655
Other	**1,639**	912
	$ 31,651	$ 38,567
Depreciation and amortization of fixed assets:		
Canada	**$ 19,266**	$ 18,887
United States	**8,173**	7,070
	27,439	25,957
Other	**871**	829
	$ 28,310	$ 26,786

22 Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

CORPORATE INFORMATION

DIRECTORS

Pierre Van Houtte
Honorary Chairman of the Board
Van Houtte Inc.

Paul-André Guillotte
Chairman of the Board
Van Houtte Inc.

Jean-Yves Monette
President and
Chief Executive Officer
Van Houtte Inc.

Pierre-Luc Van Houtte
Corporate Secretary
Van Houtte Inc.
Corporate Director

Michel Ouellet
Corporate Director

Christian Pouliot
Corporate Director

Michael Gray
President and
Chief Executive Officer
Performance Food Group Company

Yvon Julien
Corporate Director

Jean Chagnon
President
Lallemand Inc.

Sylvain Bernier
Executive Vice-President
and Chief Operating Officer
The Beauregard Group of Companies

Robert Parizeau
Chairman of the Board
Aon Parizeau Inc.

OFFICERS

Jean-Yves Monette
President and
Chief Executive Officer

Gérard Geoffrion
Executive Vice-President
and Chief Financial Officer

Roger Cohen
President
Van Houtte USA

Ronald McArthur
Vice-President, Acquisitions

Normand De Césaré
Corporate Controller

Thierry Pejot-Charrost
Director, Internal Audit

Jean-Olivier Boucher
Director, Legal Affairs

Roger Leblanc
Vice-President,
Manufacturing and Distribution

Johanne Groulx
Vice-President,
Supply Chain and Trade Policy

David Laurie
Vice-President,
Retail Sales – Canada

Stéphane Breault
President, Cafés-bistros

VKI TECHNOLOGIES

Mario Tougas
President,
VKI Technologies

Angelo Mottillo
Vice-President,
Business Development

Ricardo Tozzi
Vice-President, Operations

COFFEE SERVICES (CANADA)

Jacques Brunelle
Vice-President,
Canadian Operations and
Operations – Central Region

Lucia Pollice
Vice-President,
Operations – Eastern Region

Robert Mann
Vice-President,
Operations – Prairie Region

Jamie Livingston
Vice-President,
Operations – Pacific Region

Bruce Andrew
Vice-President, National Sales

Catharine Horne
Vice-President,
Strategic Service Providers

COFFEE SERVICES (USA)

Roger Cohen
President
Coffee Services, Filterfresh

Walter Prokopchuk
Vice-President,
Operations – Eastern Region

Miles Malanowich
Vice-President,
Operations – Western Region

Ed Holloran
Vice-President,
Business Development

Robert St-Jean
Vice-President,
Finance and Administration

AUDITORS

KPMG LLP

BANKING INSTITUTIONS

Royal Bank of Canada
Scotia Bank
Bank of Montreal

TRANSFER AGENT

Computershare Trust
Company of Canada

INVESTOR RELATIONS

Gérard Geoffrion

HEAD OFFICE

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STOCK INFORMATION (JULY 18, 2003)

Initial public offering: August 1987 ($2.50*)
Number of shares outstanding:
5,300,000 multiple voting shares;
16,139,681 subordinate voting shares
High/low for fiscal 2003: $26.99 / $10.51
Trading volume: 7,235,105
** Reflects 1997 stock-split.*

VAN HOUTTE'S ANNUAL MEETING OF SHAREHOLDERS

will be held on September 9, 2003 at 11:00 a.m. at the Mont-Royal Omni Hotel, Saisons A Room, 1050 Sherbrooke Street West, Montreal, Quebec.

The Company's Annual Information Form for the fiscal year ended March 30, 2003 will be available at the Head Office as of August 16, 2003.

Ce rapport est également disponible en français.


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